

Section 1

Revised Schedule K-1 (Flow-Through)

IRS Offers Tips for Accurate Schedule K-1 Filing

The IRS has updated its annual list of tips to businesses, individuals, and tax professionals to avoid errors on Schedule K-1. The Schedule K-1 is used to report income and other distributions from partnerships, S corporations and some estates and trusts.

Accurate filing of the forms is important because the IRS matches income from Schedules K-1 to other tax returns. For tax year 2003, more than 25 million Schedule K-1 forms were filed reporting approximately \$1 trillion in income to partners, shareholders, and some estate and trust beneficiaries. A matching program to ensure all Schedule K-1 income is being reported is critical to the IRS' tax administration policies.

New partnerships and S corporation Schedules K-1 were available for 2004. The redesigned forms feature an improved layout similar to that of Form W-2 as well as streamlined instructions. A new Schedule K-1 for estates and trusts is available for tax year 2005.

Changes to forms, greater outreach, and enhancements to the matching program were among the recommendations made in 2002 by a study group comprised of tax professionals and the IRS. Last year the form and instructions for 2003 Schedule E, Supplemental Income, contained enhancements designed to improve Schedule K-1 reporting accuracy.

To reduce errors, the IRS encourages electronic filing of Schedule K-1 and other tax forms. Additional reminders to businesses, individuals and tax professionals include:

For flow-through entities issuing Schedule K-1

- Ensure use of the codes on page 2 of the new Schedule K-1 to identify items in lines 10 through 17 (Form 1120-S K-1) and lines 11 through 20 (Form 1065 K-1).
- Ensure the correct taxpayer identification numbers are used on Schedule K-1, particularly those issued to owners of entities disregarded for federal tax purposes (i.e. Single Member Limited Liability Companies). In these situations, Schedule K-1 must be issued to the owner of the entity and reflect that owner's identification number.
- Identify "amended" information by checking the appropriate box on the Schedule K-1.

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For recipients of Schedule K-1

- Report income in the proper location on individual returns as instructed on Schedule K-1, page 2 and in the instructions.
- Avoid netting or combining income against separately stated losses or expenses. Refer to Form 8582, Passive Activity Loss Limitation, for instructions on properly deducting passive activity losses. Ordinary business income should be reported separately from other related deductions, such as unreimbursed partnership expenses or Section 179 expenses. Refer to the Schedule E instructions for information on properly accounting for deductions related to Schedule K-1 income.
- Report deductible “At Risk” or Basis Limitation losses carried forward from prior years on a separate line from current year transactions. Do not combine (net) them with any current year amounts.
- Identify “estimated” K-1 income. When the Schedule K-1 has not been received at the time the Form 1040 is filed, the income should be estimated. Form 8082, Notice of Inconsistent Treatment or Amended Return, generally should be used to identify estimated K-1 income or when the investor disagrees with the amounts reported on the K-1.

The IRS is in the final stages of the tax year 2002 matching program and will begin matching 2003 documents before year end. Additional filters and screening enhancements implemented over the past two years have improved the overall effectiveness of the matching program. The IRS also continues to analyze closed K-1 matching cases for taxpayer burden reduction and program enhancement opportunities as well as additional outreach and educational needs.

Links:

- [IR-2005-4, Revised Schedules K-1 to Reduce Filing Complexity](#)
- Schedule K-1 (Form 1065), Partner’s Share of Income, Deductions, Credits, etc. ([PDF 99K](#))
- Partner’s instructions for Schedule K-1 (Form 1065) ([PDF 83K](#))
- Schedule K-1 (Form 1120S), Shareholder’s Share of Income, Deductions, Credits, etc. ([PDF 89K](#))
- Shareholder’s Instructions for Schedule K-1 (Form 1120S) ([PDF 89K](#))
- Schedule K-1 (Form 1041), Beneficiary’ s Share of Income, Deductions, Credits, etc. ([PDF 68K](#))

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- Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR) (Form 8082)